

COTTONWOOD HEIGHTS (A CITY), UTAH
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006



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**COTTONWOOD HEIGHTS, UTAH
YEAR ENDED JUNE 30, 2006**

TABLE OF CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-12
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	20
Statement of Net Assets – Proprietary Fund	21
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	22
Statement of Cash Flows – Proprietary Fund	23
Notes to the Financial Statements	25-41
SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Capital Projects Fund	44
Schedule of Impact Fees Collected by Year, Project, and Planned Expenditures	45

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LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

September 8, 2006

Honorable Mayor
Members of the City Council
Cottonwood Heights, Utah

Mayor and Council Members:

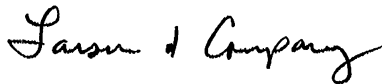
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cottonwood Heights (the City), as of and for the period ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cottonwood Heights, as of June 30, 2006, and the respective changes in financial position, where applicable, thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 12 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Supplementary information that is not a required part of the basic financials statements is found on pages 44 and 45. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 8, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Larson & Company".

Larson & Company
Certified Public Accountants

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

As management of Cottonwood Heights (the City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. It is also intended to assist the reader in focusing on significant financial issues. These include identifying changes in the City's financial position (its ability to address the next and subsequent year's challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- Total net assets of Cottonwood Heights are \$47,187,534.
- Total net assets consist of: \$42,360,450 in capital assets net of related debt, Reserved Accounts - \$174,279 in Class "C" Roads, \$8,996 in Impact Fees, and \$4,643,809 in Unreserved Accounts (\$588,746 in the General Fund and 4,055,063 in the Capital Projects Fund).
- The General Fund (the primary operating fund) had an increase over the prior year in its fund balance of \$403,292. The Capital Projects Fund also had an increase in its fund balance of \$3,648,143.
- As part of successfully executing a mutually acceptable contract for law enforcement services with Salt Lake County, the City fulfilled a final requirement to release a \$2,500,000 grant from Salt Lake County for park and open space preservation. This grant will help the City possibly acquire the two elementary schools previously closed in Cottonwood Heights.
- The City also negotiated a very favorable extension on \$2.5 million in intergovernmental payables for law enforcement services utilized in the first eight months of the City's existence. These payables are scheduled to be paid in full by July 1, 2008.
- During the 2006 fiscal year the City staff expanded in order to improve and sustain customer service goals. A half-time deputy recorder and two quarter time interns helped develop the Planning department, with one of the interns later in the year being hired on as a full-time planner. The Treasurer changed from a contract position into a 25 hours per week salaried position. Additionally, an Information Systems specialist was hired for 10 hours per week to solve systems development and growth issues.
- The City has established a Proprietary Fund (Employee Benefit Fund) as an internal service fund to allow the Governmental Funds to be charged for employee paid time off (PTO) in the year the benefit is earned. Charges made by the internal service fund to the Governmental Funds will accumulate funds to pay the employee PTO when it becomes payable in future years at termination. This will prevent the pay out of PTO from being an unforeseen drain on current year budgets.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Cottonwood Heights' basic financial statements which consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements and 4) required supplementary information.

Government-wide financial statements (defined)

The government-wide financial statements are designed to provide readers with a broad overview of Cottonwood Heights' finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Cottonwood Heights' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Cottonwood Heights is improving or deteriorating. However, the reader will also need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Cottonwood Heights that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions (business-type activities) that are intended to recover all or a significant portion of their costs through user fees and charges. ***Cottonwood Heights currently has no Business-type Activities.***

Fund financial statements (defined)

A statement of revenue, expenditures and changes in fund balance by fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Cottonwood Heights also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of a city can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Cottonwood Heights currently has two major governmental funds (as determined by generally accepted accounting principles), the General Fund and the Capital Projects Fund and one proprietary fund, Employee Benefit Fund (internal service fund). ***Cottonwood Heights currently has no Fiduciary Funds.***

- ***Governmental funds*** – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

balances left at year-end that are available for spending. These funds are reported using a modified accrual accounting method, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

- ***Proprietary funds*** – Cottonwood Heights maintains one proprietary fund, the Employee Benefit Fund. This fund is used as an internal service fund, which is an accounting device used to accumulate and allocate costs primarily for accrued paid time off (PTO) among the City's various functions. This fund will provide the resources needed to pay out accrued PTO benefits without negatively impacting current year budgets. Because this service predominantly benefits governmental rather than business-type functions, this fund has been included within the governmental activities in the government-wide financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-41 of this report.

CITY'S GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Cottonwood Heights, assets exceed liabilities by \$47,187,534 at the close of the most recent fiscal year. The City's government-wide financial statements can be found on pages 14-15 of this report.

Cottonwood Heights was incorporated on January 14, 2005 and has now completed a full fiscal year of activity as of June 30, 2006. The previous year is only a 5 ½ month period with which to compare the current financial position and results of activities.

By far the largest portion of Cottonwood Heights' net assets, \$42,360,450, reflects investment in capital assets (e.g., land, roads and infrastructure assets, net of related debt). The City uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

An additional portion of the City's net assets, \$183,245, represents resources that are subject to external restrictions on how they may be used. Currently this restriction is on unexpended Class C road funds and Impact Fees collected during the year.

The remaining balance of unrestricted net assets, \$4,643,809, may be used to meet the city's ongoing obligations to citizens and creditors by fund type. Most of this is reflected in the fund balance of the Capital Projects Fund.

**Cottonwood Heights'
Net Assets
As of June 30th**

	Governmental Activities	
	2006	2005 (5 ½ months)
Current and other assets	7,925,989	3,137,814
Capital assets	42,381,068	44,346,513
Total assets	50,307,057	47,484,327
Long-term liabilities outstanding	2,410,976	31,500
Other liabilities	708,547	2,362,166
Total liabilities	3,119,523	2,393,666
Net assets		
Invested in capital assets, net of related debt	42,360,450	44,315,013
Restricted	183,245	171,627
Unrestricted	4,643,809	604,021
Total net assets	47,187,534	45,090,661

Governmental activities analysis

Governmental activities increased the City's net assets by \$2,096,873 resulting in total net assets of \$47,187,534. Significant current year revenues were from local option Sales Taxes \$4,748,086 (36%), Inter-local shared revenues \$2,858,039 (21%) (primarily County municipal services property tax funds), Operational Grants \$1,289,841 (9.7%) (Class C road funds and Community Development Block Grant), and Capital Grants \$2,532,080 (19%) (County Parks and Open Space Grant and Impact Fees). See also supplementary Schedule of Impact Fees Collected by Year, Project, and Planned Expenditures for Storm Water Impact Fees on page 44.

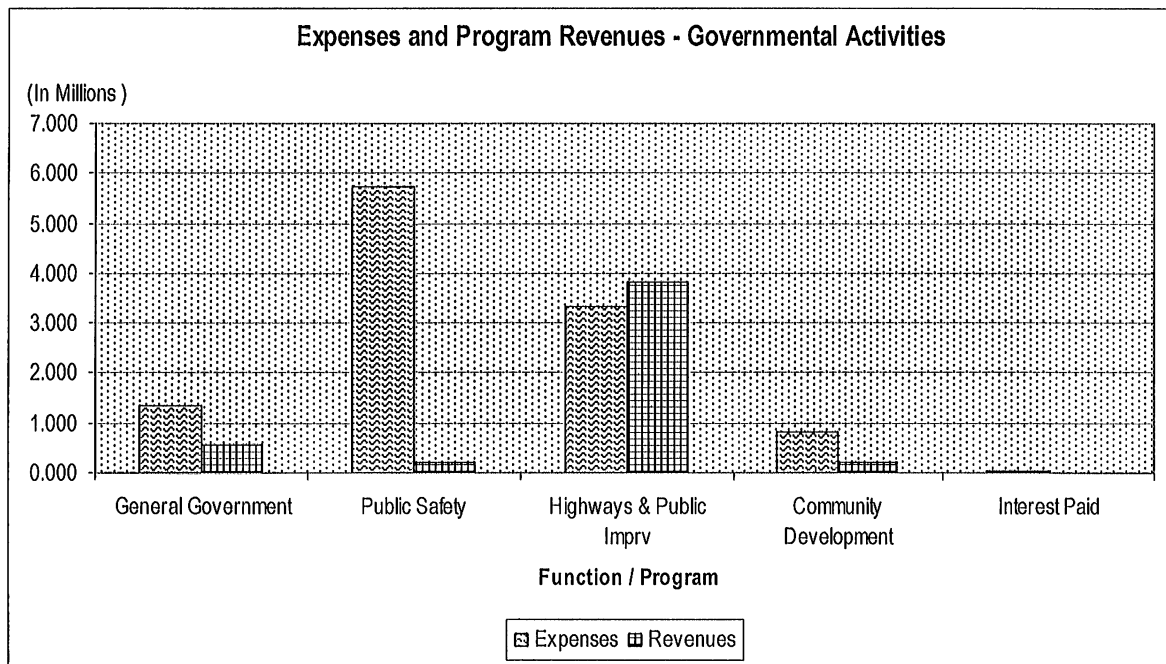
**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

**Cottonwood Heights'
Changes in Net Assets**

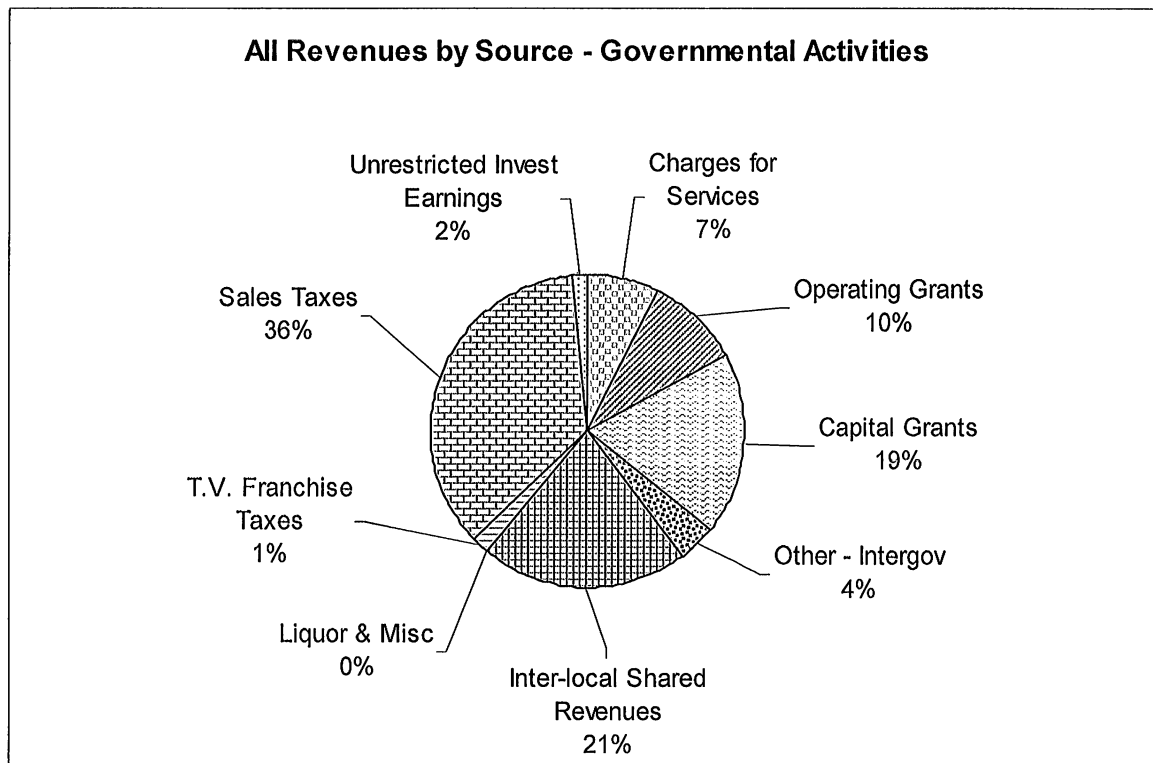
	Governmental Activities	
	2006	2005 (5 1/2 months)
Revenues:		
Program revenues:		
Charges for services	962,497	273,390
Operating grants and contributions	1,289,841	627,685
Capital grants and contributions	2,532,080	4,661
Total program revenues	4,784,418	905,736
General revenues:		
Shared Revenues - Property taxes	2,858,039	874,799
Other taxes	4,958,764	2,087,086
Unrestricted investment earnings	233,637	8,131
Other - Intergovernmental	500,000	45,243,555
Other - Miscellaneous	405	694
Total general revenues	8,550,846	48,214,265
Total revenues	13,335,264	49,120,001
Expenses:		
General government	1,328,701	669,212
Public safety	5,730,383	1,763,029
Highways and public improvements	3,309,743	1,377,478
Community & economic development	821,760	212,593
Interest on long-term debt	47,805	7,028
Total expenses	11,238,391	4,029,340
Change in net assets	2,096,873	45,090,661
Net assets - beginning	45,090,661	-
Net assets - ending	47,187,534	45,090,661

The following is a graphic presentation of the City's program revenues and corresponding expenditures. It should be noted that 63.3 percent of the expenses shown for Highways & Public Improvements is attributable to current period depreciation of the City's infrastructure assets. The revenue for the Highway & Public Improvements is primarily from Class C Road Funds. The General Government revenue is from charges for services (business licensing and permits & inspections) and Community Development Block Grant provided funds to help the City develop its' general development plan that is required by law.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**



Below is a graphic of all revenue sources collected by the City during the fiscal 2006 year.



**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

CITY'S FUND FINANCIAL STATEMENTS ANALYSIS

As noted earlier, Cottonwood Heights uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Analysis

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of this fiscal year, Cottonwood Heights' governmental funds reported combined ending fund balances of \$4,827,084 after only seventeen and one half months of operations. Approximately 96.2 percent, or \$4,643,809, of this total constitutes *unreserved, undesignated fund balance*, which is available for spending at the City Council's discretion. (\$4,055,063 of this balance is in the Capital Projects fund and must be spent on capital projects.) The remaining \$183,275 of fund balance is *reserved or designated* to indicate that it is only available for spending on the designated purpose for which the funds are committed (Class C roads and Storm Water impact fees).

- The **General Fund** is the chief operating fund of the City. At June 30, 2006 the General Fund's unreserved fund balance was \$588,746, while the total fund balance equaled \$772,021. A useful measure of liquidity is to compare the unreserved fund balance and the total fund balance to expenditures (including operating transfers out) for the year. Unreserved fund balance was 3.5 percent of total expenditures and transfers, while total fund balance equaled 4.5 percent. The fund balance increased by \$403,293 due to better than expected revenues and slightly under spent departmental budgets. The current unreserved fund balance is 4.2 percent (up from 1.5 percent) of the total estimated fund revenues for the 2006-2007 fiscal year. The stated goal of the City Council is to build this fund to at least 6.0 percent.
- The other governmental fund is the **Capital Projects Fund**. This fund is specifically used to budget capital improvements. Generally, capital projects have been held until the 2006-07 budget year to allow the City to complete a Capital Facilities Plan and a Storm Water Master Plan. At June 30, 2006, the fund has an unreserved fund balance of \$4,055,063. This was an increase of \$3,648,143 which is primarily due to a transfer from the General Fund and includes the \$2.5 million grant from Salt Lake County for parks & open space.

The City's basic governmental funds financial statements can be found on pages 16-20 of this report.

Proprietary Funds Analysis

The focus of the City's only proprietary fund, **Employee Benefit Fund**, is to accumulate funds to pay the City's PTO liability each year to minimize or altogether eliminate any budgetary

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

impact in a subsequent year when a payout is required. At the end of each fiscal year, a liability estimate is made based on individual accruals and current wage rate of each employee. The total liability is then compared with the current liability balance in the Employee Benefit Fund and any additional liability is charged to the current year's expenditures in the governmental funds.

The City's basic proprietary fund financial statements can be found on pages 21-23 of this report.

GENERAL FUND 2006 BUDGETARY HIGHLIGHTS

During the year there was an overall increase of \$4,102,297 in budgeted appropriations for expenditures between the original adopted and final amended budget. Primarily due to a \$3,000,000 grant from Salt Lake County that was not planned on during the original budget approval process. Additional revenues were realized beyond the revised budget in Sales Taxes totaling \$126,000, Charges for Services totaling \$140,000 and in Transient Room Tax and Fines & Forfeitures for \$21,000 each. This re-forecasting of revenues and adjustment of anticipated expenditures also increased an appropriated transfer from the General Fund to the Capital Projects Fund by \$3,349,795.

Differences between the original and final amended budgets amounted to a total increase in appropriations of \$4,102,297. By department, the changes are:

- \$173,362 increase in General Government
- \$ 45,366 increase in Public Safety
- \$ 74,951 increase in Highways and Public Improvements
- \$415,360 increase in Community and Economic Development
- \$ 43,463 increase in Debt Service
- \$3,349,795 increase in transfers to Capital Projects Fund

No increase was funded from fund balance, rather all adjustments were made in light of revenue revisions. Actual expenditures in the General Fund departments were equal to or less than the amended budget including General Government, Public Safety, Highways and Public Improvements and Community and Economic Development and Debt Service.

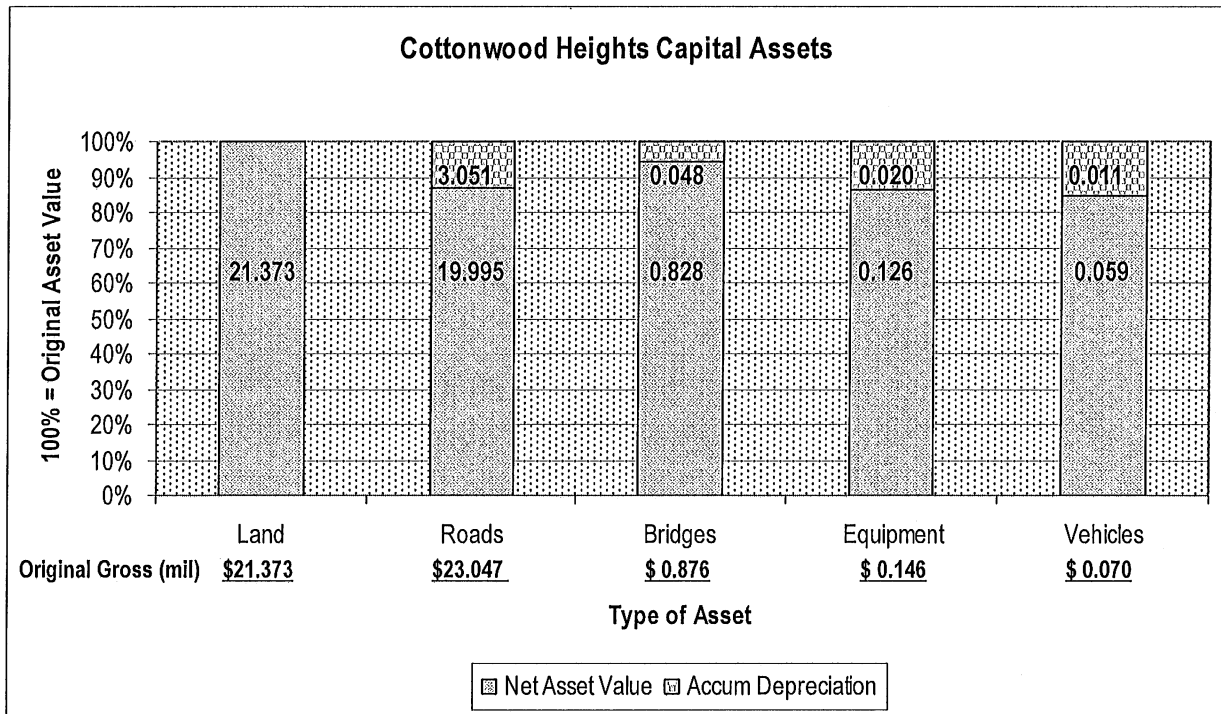
The City's Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund can be found on page 20 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

Cottonwood Heights' investment in capital assets for its governmental activities as of June 30, 2006 amounted to \$42,381,069 (net of accumulated depreciation). This investment in capital assets includes land, improvements other than buildings, infrastructure (streets, sidewalks, curb and gutter, etc.), equipment and vehicles.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**



Capital asset additions during this fiscal year included the following for a total increase of \$151,073 in assets:

- \$51,715 in infrastructure from road re-designs and improvements
- \$48,311 in new equipment capital asset purchases
- \$51,047 in vehicles, including two motorcycles for the City police

Additional information on assets of the City can be found in the Notes 3.D. Capital Assets on page 36 of this report.

Long-term debt

At June 30, 2006 the City had \$35,684 in governmental long-term debt. None of this debt is considered to be general obligation debt. \$15,065 of this amount is a long-term liability in the Employee Benefit Fund for employee PTO accruals. The balance is a capital lease on the first vehicle purchased by the City.

Additional information on the outstanding debt obligations of the City can be found in the Notes 3.F. Long-Term Debt on pages 37-38 of this report.

Intergovernmental Payable

The city also has an intergovernmental loan of \$2,500,000 to Salt Lake County that is actually a deferment of contract payables from all of Fiscal 2005 and part of Fiscal 2006 for Sheriffs' contract payments that have been deferred until July 1, 2008. If all payments are completed on schedule there will be no interest charges imposed.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- Cottonwood Heights did not levy property taxes until fiscal year 2006-07. The City's tax rate will be the property tax rate levied and collected by Salt Lake County Municipal Services Fund and the Salt Lake Valley Fire District in 2005. Therefore, Cottonwood Heights adopted property tax rate for the 2006-07 budget year is .002624. The locally assessed valuation in Cottonwood Heights is \$2,396,434,832. The adopted tax rate should yield approximately \$6,288,245 in property tax revenue.
- The 2006-07 budget has been constructed with a focus on efficient and effective use of the limited resources available. No new taxes or planned debt has been proposed to fund City operations by the City Council.
- Capital improvements are budgeted at \$8,088,939 for the 2006-07 budget:
 - Projects are defined by the Capital Facilities Plan.
- Currently there are no anticipated changes to the service areas or boundaries of the City which would impact either revenues or expenditures.
- The change in the National Consumer Price Index for the fiscal year 2006 was 4.32 percent increase. During the same period of time, the Western Urban Consumer Price Index increased by 4.24 percent. Both are unadjusted for seasonal variances.
- The monthly average unemployment rate in FY 2006 for Salt Lake County was 3.9 percent compared with a state monthly average unemployment rate of 3.8 percent and a national average rate of 4.8 percent. Salt Lake County's revised monthly average rate in FY 2005 was 4.6 percent (Source: Dept of Labor website).

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Cottonwood Heights' finances. Questions concerning any information provided in this report or a request for additional financial information should be addressed to: Cottonwood Heights, attn: David Muir, Finance Director, 1265 Fort Union Blvd, #250, Cottonwood Heights, UT 84047.

BASIC FINANCIAL STATEMENTS

Cottonwood Heights, Utah
Statement of Net Assets
June 30, 2006

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	7,650,123
Receivables (net of allowances)	78,165
Prepays	14,425
Restricted Cash and cash equivalents	183,275
Capital assets not being depreciated:	
Land	21,373,094
Capital assets (net of accumulated depreciation):	
Improvements other than buildings	126,173
Equipment	58,865
Infrastructure	20,822,937
Total assets	<u><u>50,307,057</u></u>
LIABILITIES	
Accounts payable and other current liabilities	221,072
Accrued liabilities	148,091
Deferred revenue	214,677
Non-current liabilities:	
Due within one year	10,571
Due in more than one year	25,113
Intergovernmental Payable:	
Due within one year	114,136
Due in more than one year	2,385,864
Total liabilities	<u><u>3,119,523</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	42,360,450
Restricted for:	
Class C Roads	174,279
Impact Fees	8,996
Unrestricted	4,643,809
Total net assets	<u><u>47,187,534</u></u>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah

Statement of Activities

For the Year Ended June 30, 2006

Function / Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating	Capital	
			Grants and Contributions	Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	1,328,701	553,207	12,496		(762,998)
Public safety	5,730,383	206,721			(5,523,662)
Highways and public improvements	3,309,743		1,277,345	2,532,080	499,682
Community and economic development	821,760	202,569			(619,191)
Interest on long-term debt	47,805				(47,805)
Total governmental activities	11,238,391	962,497	1,289,841	2,532,080	(6,453,973)
General revenues:					
Shared revenue - property taxes					2,858,039
Sales taxes					4,748,086
Franchise taxes					187,077
State Liquor Fund Allotment					23,601
Grants and contributions not restricted to specific programs					500,000
Unrestricted investment earnings					233,638
Miscellaneous					405
Total general revenue and transfers					8,550,846
Changes in net assets					2,096,873
Total net assets - beginning					45,090,661
Total net assets - ending					47,187,534

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah

Balance Sheet Governmental Funds June 30, 2006

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	3,579,996	4,055,063	7,635,059
Accounts receivables (net):	78,165		78,165
Prepaid Expenses	14,425		14,425
Restricted Cash and cash equivalents	183,275		183,275
Total assets	3,855,860	4,055,063	7,910,923
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	2,721,072		2,721,072
Accrued liabilities	575		575
Advances from Developers	147,516		147,516
Deferred revenue	214,677		214,677
Total liabilities	3,083,839		3,083,839
Fund balances:			
Reserved:			
Class C roads	174,279		174,279
Impact Fees	8,996		8,996
Unreserved, reported in:			
General Fund, required	588,746		588,746
Fund balance available		4,055,063	4,055,063
Total fund balances	772,021	4,055,063	4,827,084
Total liabilities and fund balances	3,855,860	4,055,063	7,910,923

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2006

Total fund balances - governmental fund types: \$ 4,827,084

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 42,381,069

Long-term liabilities, including capital leases payable, are not due and payable in the current period and therefore are not reported in the funds. (20,619)

Net assets of governmental activities \$ 47,187,534

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Taxes:			
Sales	4,726,645		4,726,645
Franchise - Cable TV	187,077		187,077
Transient Room	21,441		21,441
Licenses and permits	553,207		553,207
Intergovernmental:			
Federal Grant	12,496		12,496
State Class C Roads	1,277,345		1,277,345
State Liquor Fund Allotment	23,601		23,601
Local Grants	3,000,000		3,000,000
Local Property Tax - Shared	2,627,447		2,627,447
Local Motor Vehicle Fee-in-lieu - Shared	230,592		230,592
Charges for services	202,569		202,569
Fines and forfeitures	206,721		206,721
Investment earnings	216,344	17,293	233,638
Miscellaneous	405		405
Total revenues	13,285,890	17,293	13,303,183
EXPENDITURES			
Current:			
General Government	1,257,071	59,832	1,316,904
Public Safety	5,764,758		5,764,758
Highways and Public Improvements	1,313,665		1,313,665
Community and economic development	829,815		829,815
Debt Service:			
Principal	10,881		10,881
Interest	47,805		47,805
Total expenditures	9,223,996	59,832	9,283,828
Excess (deficiency) of revenues over (under) expenditures	4,061,894	(42,539)	4,019,355
OTHER FINANCING SOURCES (USES)			
Sources:			
Impact Fees - Current Year Collections	32,080		32,080
Transfers from General Fund		3,690,682	3,690,682
(Uses):			
Transfers to Capital Improvement Fund	(3,690,682)		(3,690,682)
Total Other Financing Sources (Uses)	(3,658,602)	3,690,682	32,080
Net change in Fund Balances	403,293	3,648,143	4,051,436
Fund Balance - Beginning	368,728	406,920	775,648
Fund Balance - Ending	772,021	4,055,063	4,827,084

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 4,051,435
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(1,965,443)
Repayments of capital lease principal are expenditures in the governmental fund, Principal payments on capital leases	<u>10,881</u>
Change in net assets of governmental activities	<u>\$ 2,096,873</u>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2006

Description	Budgeted Adopted Budget	Amounts Final Budget	Fund Actuals (Budgetary Basis) (See Notes)	Variance with Final Budget
REVENUES				
Taxes:				
Sales	4,500,000	4,600,000	4,726,645	126,645
Franchise - Cable TV	144,000	182,645	187,077	4,432
Transient Room	12,000	1,000	21,441	20,441
Licenses and permits	250,000	641,130	553,207	(87,923)
Intergovernmental:				
Federal Grant		12,271	12,496	225
State Class C Roads	1,103,680	1,301,468	1,277,345	(24,123)
State Liquor Fund Allotment	18,000	23,601	23,601	0
Local Grants		3,000,000	3,000,000	
Local Property Tax - Shared	2,432,586	2,572,631	2,627,447	54,816
Local Motor Vehicle Fee-in-lieu - Shared	181,008	230,592	230,592	0
Charges for services	31,500	61,000	202,569	141,569
Fines and forfeitures	114,000	185,003	206,721	21,718
Investment earnings	10,000	210,567	216,344	5,777
Miscellaneous			405	405
Total revenues	8,796,774	13,021,908	13,285,890	263,982
EXPENDITURES				
Current:				
General Government	1,149,683	1,323,045	1,257,071	(65,974)
Public Safety	5,729,875	5,775,241	5,764,758	(10,483)
Highways and Public Improvements	1,286,180	1,361,131	1,313,665	(47,466)
Community and economic development	442,649	858,009	829,815	(28,193)
Debt Service:				
Principal	6,279	6,279	10,881	4,602
Interest	18,721	62,184	47,805	(14,379)
Total expenditures	8,633,387	9,385,889	9,223,996	(161,893)
Excess (deficiency) of revenues over (under) expenditures	163,387	3,636,019	4,061,894	425,875
OTHER FINANCING SOURCES (USES)				
Sources:				
Impact Fees - Current Year Collections	182,500	60,000	32,080	(27,920)
(Uses):				
Transfers to Capital Improvement Fund	(340,887)	(3,690,682)	(3,690,682)	0
Transfers to SL County Easy - Golden Hills	(5,000)	(5,000)		5,000
Total Other Financing Sources (Uses)	(163,387)	(3,635,682)	(3,658,602)	(22,919)
Net change in Fund Balances		337	403,293	402,956
Fund Balance - Beginning		368,391	368,728	337
Fund Balance - Ending		368,728	772,021	403,293

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Net Assets
Proprietary Fund
For the Year Ended June 30, 2006

	Governmental Activities - Employee Benefit Fund
ASSETS	
Cash and cash equivalents	\$ 15,065
Total assets	<u>15,065</u>
LIABILITIES	
Non-current liabilities	
Accrued PTO benefits payable	15,065
Total liabilities	<u>15,065</u>
NET ASSETS	
Unrestricted	0
Total net assets	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2006

	Governmental Activities - Employee Benefit Fund
OPERATING REVENUES	
Charges for interfund services provided	\$ 15,065
Total operating revenues	<u>15,065</u>
OPERATING EXPENSES	
General Government - employee PTO benefits	<u>15,065</u>
Total operating expenses	<u>15,065</u>
Operating income	<u>0</u>
Change in net assets	<u>0</u>
Total net assets - beginning	<u>0</u>
Total net assets - ending	<u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2006

	Governmental Activities - Employee Benefit Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from interfund services provided	\$ 15,065
Net cash provided by operating activities	<u>15,065</u>
 Net increase in cash and cash equivalents	 15,065
 Cash and cash equivalents July 1, 2005	 <u>0</u>
Cash and cash equivalents June 30, 2006	<u><u>\$ 15,065</u></u>
 Reconciliation of operating income to net cash provided (used) by operating activities	
Operating Income	\$ 0
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Increase in accrued PTO benefits payable	15,065
 Net cash provided by operating activities	 <u><u>\$ 15,065</u></u>

The notes to the financial statements are an integral part of this statement.

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COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

INDEX

- NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- A. Financial Reporting Entity
 - B. Basis of Presentation
 - C. Measurement Focus and Basis of Accounting
 - D. Assets, Liabilities, and Net Assets (Equity)
 - E. Revenues, Expenditures, and Expenses
- NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY
- A. Fund Accounting Requirements
 - B. Cash Deposits and Investments
 - C. Revenue Restrictions
 - D. Debt Restrictions and Covenants
 - E. Fund Equity Restrictions
 - F. Budgetary Basis of Accounting
- NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS
- A. Cash Deposits and Investments
 - B. Restricted Assets
 - C. Accounts Receivable
 - D. Capital Assets
 - E. Accounts Payable
 - F. Long-term Debt
 - G. Inter-fund Transactions and Balances
 - H. Fund Equity
- NOTE 4. OTHER INFORMATION
- A. Employee Pension and Other Benefit Plans
 - B. Risk Management

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

Cottonwood Heights (the City), incorporated in 2005, is a political subdivision of the State of Utah. The City is governed by a mayor and an elected board of four council members. The financial statements of the City may include those of separately administered organizations that are controlled by or are dependent upon the City. Control or dependence is determined on the basis of financial interdependence, selection of governing authority, designation of management ability to significantly influence operations and accountability for fiscal matters. Using these criteria no potential component units are included in the City's financial statements.

The accounting policies of Cottonwood Heights, Utah, conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant of such policies.

The City's financial reporting entity comprises the following:

Primary Government:	Cottonwood Heights
Component Units:	None

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

Government-wide Statement of Net Assets and Statement of Activities display information on all non-fiduciary activities of the reporting government as a whole. Most effects of any inter-fund activities have been eliminated from these statements.

The government-wide statements for the primary government are separated based on the predominance of the type of revenues that support them. Governmental activities are normally supported by taxes and intergovernmental revenues, while business type activities would receive a significant portion of revenues from fees and charges for services.

The statement of activities is presented to show the extent that program revenues of a given activity support direct expenditures of the function. Direct expenses are those that can clearly be

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

associated with a particular activity or program. Program revenues include: (1) charges to customers or privileges provided by a given function and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Other revenue sources that are not reported as program revenues are reported instead as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. All funds of Cottonwood Heights are considered to be major funds.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets.

Proprietary Funds:

Employee Benefit Fund (an internal service fund)

The Employee Benefit Fund is used to account for liabilities created from accrued Personal Time Off (PTO) of each City employee. Each year a calculation is made to determine the payouts that would occur in future years. This amount is charged to the current year in order to eliminate any large unforeseen payout that could disrupt the individual departmental budgets.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The government-wide Statement of Net Assets and the Statement of Activities are presented using the economic resources measurement focus as defined in item b. below.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. Proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets. The City employee benefit fund (an internal service fund) is reported on this basis.
- c. Fiduciary funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them. The City has no Fiduciary funds at this time.

Basis of Accounting

The government-wide Statement of Net Assets and Statement of Activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City uses 60 days as a cutoff for meeting the availability criterion. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1.D. ASSETS, LIABILITIES, AND NET ASSETS (EQUITY)

Deposits and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (non-current portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.G. for details of interfund transactions, including receivables and payables at year-end.

Receivables and Payables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property taxes, court fines and road cut permits.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned and considered both measurable and available.

Accounts payable consists principally of payables to Salt Lake County for public safety and public works expenditures.

Capital Assets

The accounting treatment for property, plant, and equipment depends on whether the assets are reported in the government-wide or fund financial statements.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Government-wide Statements

In the government-wide financial statements assets are accounted for as capital assets. All assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the infrastructure assets transferred from Salt Lake County during the period ending June 30, 2005. The City has chosen to capitalize assets costing \$10,000 or more.

Depreciation of all exhaustible assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	45 years
Machinery and Equipment	5 to 15 years
Vehicles	5 years
Infrastructure	15-50 years

Fund Financial Statements

In the fund financial statements assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Restricted Assets

Restricted assets consist of various cash balances that are restricted as to their use. Certain cash balances are restricted by provisions of the State Law. Class C Road revenue not spent is restricted in the general fund to be used for future roadwork. The City also has certain impact fees that are restricted.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are reported in the government-wide or fund financial statements.

All long-term debts to be repaid from governmental resources are reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused paid time off (PTO) benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. There is no recorded liability for compensated absences in the governmental funds because the Employee Benefit Fund (an internal service fund) has been paid for the incurred compensated absence expenditures.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets net of accumulated depreciation. The City has no related debt.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. See Note 3.H. for additional disclosures.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Revenue

Property taxes, franchise taxes, licenses, shared revenue, and interest are susceptible to accrual. Sales taxes collected and held by the state and county at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Because Cottonwood Heights was incorporated after the "Property tax assessment date" of January 1, 2005, no property tax could be assessed for the initial fiscal years of 2005 or 2006. Property tax is based on assessed values as of January 1st and rates are set the following June and actual property taxes are then due November 30th. The first City property taxes that could be

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

assessed would be based on an assessment date of January 1, 2006 and collected in November, 2006 and provides revenue for the 2006-07 fiscal year. Cottonwood Heights has recently established its first property tax rate for the City's approved budget for the fiscal year 2006-07.

Section 10-2-121 (2) of the Utah Legal Code requires Salt Lake County to share with Cottonwood Heights property taxes the County has levied in calendar 2005 to pay for municipal services provided by Cottonwood Heights during fiscal years 2005 and 2006 . These taxes have been paid to the City.

Expenditures/Expenses

In the government-wide financial statements, expenditures are classified by function for governmental activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character:
Current (further classified by function)
Debt Service
Capital Outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual obligations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring the use of funds separate from the General Fund. The legally required separate funds used by the City include the following:

<u>Fund</u>	<u>Required By</u>
None	

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

2.B. CASH DEPOSITS AND INVESTMENTS

Deposits and investments for Cottonwood Heights are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of Cottonwood Heights' exposure to various risks related to its cash management activities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, Cottonwood Heights' deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of Cottonwood Heights to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, Cottonwood Heights had no deposits that were uninsured, except for the immaterial amount that is swept from the City's Zions Bank checking account to a Zions Bank Grand Cayman Branch on a daily basis in order to earn interest on otherwise idle cash. The balance in this uninsured account as of June 30, 2006 was \$66,194.25.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act.

Cottonwood Heights is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended June 30, 2006, Cottonwood Heights had investments of \$7,889,981 with the PTIF. The entire balance had a maturity of less than one year (55 days). The PTIF pool has not been rated. A copy of the Public Treasurers Investment Fund is available for viewing on the Utah State Treasurer's website at <http://www.treasurer.state.ut.us>.

Investment Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Cottonwood Heights manages its exposure to declines in fair value by investment only in the PTIF and by adhering to the Money Management Act.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from state requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
B & C Road Funds	Eligible B & C Roads

For the period ended June 30, 2006, the City complied, in all material respects, with these revenue restrictions

2.D. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

No long term general obligation debt shall be created by any city unless the proposition to create such debt shall have been submitted to a vote of qualified electors. Cities shall not contract for debt in an amount exceeding four percent of the fair market value of taxable property in their jurisdictions. For the period ended June 30, 2006, the City had no outstanding general obligation debt.

Other Long-term Debt

Cities may incur indebtedness for the purpose of supplying such city water, sewer, or electricity when such public works are owned and controlled by the municipality. The additional indebtedness shall not exceed four percent for first and second class cities and eight percent for third class cities. For the period ended June 30, 2006, the City had no such indebtedness.

2.E. FUND EQUITY RESTRICTIONS

General Fund Balance Restrictions

Utah Code 10-6-116(4) requires that only the "fund balance in excess of 5 percent of total revenues of the general fund may be utilized for budget purposes." The remaining 5 percent must be maintained as a minimum fund balance. The maximum in the general fund may not exceed 18 percent of the total estimated revenue of the general fund (10-6-116(2)). The City has not yet accumulated a fund balance in excess of 5 percent. Currently the City's reserve equals 4.2 percent of total revenues and it is anticipated that by June 30, 2007 the City will exceed the 5 percent reserve.

2.F. BUDGETARY BASIS OF ACCOUNTING

In the governmental fund statements the accounting basis and the budgetary basis are the same. The Statement (Schedule) of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual presented for the general fund and the capital projects fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Budgets are legally required for governmental funds. Annual budgets are prepared and adopted by the City Council on or before June 22 for the fiscal year commencing the following July 1, in accordance with Utah State law. The operating budget includes proposed expenditures and proposed sources of financing for such expenditures. Prior to June 22 a public hearing is conducted to obtain taxpayer input. Budgets are adopted by ordinance in total for each department. Management can move budgeted amounts within a department or decrease appropriations. The City Council can increase appropriations after having a public hearing. During the year ended June 30, 2006 the City Council amended the original budget twice.

Budgets for the Capital Projects Fund are also prepared using the modified accrual basis of accounting and are adopted on an annual basis. The budget for the Capital Projects fund are prepared annually and are re-appropriated by Council action in the following year. State law also requires a budget comparison for all funds for which an annual budget is adopted.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. CASH DEPOSITS AND INVESTMENTS

Below is a reconciliation of the year end balance invested in the PTIF s and other cash and investments presented in the statement of net assets.

Utah State Public Treasurers' Investment Fund balance	\$ 7,889,981
Reconciliation to Government-wide Statement of Net Assets:	
Investments	\$ 7,889,981
Cash on Hand	295
Deposits	(56,877)
Total	<u>\$ 7,833,399</u>
Per Statement of Net Assets:	
Unrestricted Cash	\$ 7,650,124
Restricted Cash	183,275
Total	<u><u>\$ 7,833,399</u></u>

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3.B. RESTRICTED ASSETS

The restricted assets as of June 30, 2006, are as follows:

<u>Type of Restricted Asset</u>	<u>Cash/Time Deposits</u>
<i>Governmental Activities:</i>	
Class C Road Funds	\$ 174,279
Impact Fees	8,996
Total	<u>\$ 183,275</u>

3.C. ACCOUNTS RECEIVABLE

Accounts receivables of the governmental activities consist principally of property taxes, court fines and road cuts permits receivable.

Receivables detail at June 30, 2006, is as follows:

	<u>Governmental Activities</u>
Accounts Receivable	\$ 78,165
Allowance for Doubtful Accounts	-
Net Accounts Receivable	<u>\$ 78,165</u>

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3.D. CAPITAL ASSETS

Capital asset activity for the period ended June 30, 2006, was as follows:

	Balance at July 1, 2005	Additions	Disposals / Misc Adj	Balance at June 30, 2006
Governmental Activities:				
Equipment	\$ 98,081	\$ 48,311	\$ -	\$ 146,392
Vehicles	18,061	51,047	200	69,308
Infrastructure - Roads	22,994,897	51,715	-	23,046,612
Infrastructure - Bridges	875,564		-	875,564
Land related Infrastructure	21,373,094		-	21,373,094
Totals at historical cost	45,359,697	151,073	200	45,510,970
Less Accum. Depreciation				
Equipment	(6,620)	(13,399)	-	(20,019)
Vehicles	(1,826)	(8,817)	-	(10,643)
Infrastructure - Roads	(989,255)	(2,062,187)	-	(3,051,442)
Infrastructure - Bridges	(15,484)	(32,313)	-	(47,797)
Total Accum. Depreciation	(1,013,184)	(2,116,716)	-	(3,129,900)
Governmental Activities capital assets, net	<u>\$ 44,346,513</u>	<u>\$ (1,965,643)</u>	<u>\$ 200</u>	<u>\$ 42,381,069</u>

Depreciation and Miscellaneous Adjustment expense was charged to governmental activities as follows:

General government:

General government	\$ 13,399
Public Safety	3,820
Highways & Public Improvements	2,094,500
Community Planning	4,997
Total depreciation expense	<u>\$ 2,116,716</u>

3.E. ACCOUNTS PAYABLE

Payables in the general fund are composed mostly of contract payments for public works, permitting and inspections, engineering and the city attorney.

3.F. LONG-TERM DEBT

The reporting entity's long-term debt consists of capital leases and accrued employee benefits to be repaid from governmental activities.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

As of June 30, 2006, the City had long-term debt payable from general fund resources consisting of the following:

Capital Leases Payable:

Zions Bank - Code Enforcement Truck 4.09%, (original amount \$18,461)	\$ 12,182
Microsoft - Software Lease 0%, (Original amount \$13,806)	<u>8,437</u>
Total general fund debt	<u>20,619</u>

And also as of June 30, 2006 the City had proprietary fund long-term debt payable as follows

Employee Benefit Fund (an Internal Service Fund):

Paid Time Off - Future PTO Liability	<u>15,065</u>
Total proprietary fund debt	<u>15,065</u>
Total governmental activity debt	<u><u>\$ 35,684</u></u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the period ended June 30, 2006:

Type of Debt	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital leases	\$ 31,500	\$ -	\$ (10,881)	\$ 20,619
Employee Benefit Fund - PTO		15,065		15,065
Total Governmental Fund Debt	<u>\$ 31,500</u>	<u>\$ 15,065</u>	<u>\$ (10,881)</u>	<u>\$ 35,684</u>

Annual Debt Service Requirements

The annual debt service requirements to maturity for governmental long-term debt principal and interest as of June 30, 2006, are as follows:

Year Ending June 30	Governmental Activities Capital Leases
2007	\$ 11,069
2008	10,302
2009	-
2010	-
2011	-
Thereafter	-
Total commitment	<u>21,371</u>
Less interest portion	<u>(752)</u>
Net capital leases	<u><u>\$ 20,619</u></u>

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3.G. INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	\$ 3,690,682	
Capital Projects Fund		\$ 3,690,682

3.H. FUND EQUITY

Restricted Fund Equity

	<u>Government Activities</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	\$ 42,360,450
Restricted for:	
Class "C" Roads	174,279
Impact Fees	8,996
Unrestricted	<u>4,643,809</u>
Total Net Assets	<u><u>\$ 47,187,534</u></u>

NOTE 4. OTHER INFORMATION

4A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

Pension Plans

The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The System provides retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The System is established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated* 1953 (Chapter 49) as amended, which also establishes the State Retirement Office (Office) for the administration of the Utah retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772. The System does allow elected officials and a small percent of

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

appointed officials to be exempt from participation in the Noncontributory System in lieu of other retirement options.

The City is required to contribute to the Noncontributory System 11.09 percent of salaries for fiscal year 2006 and currently 11.59 percent. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City contributions to the Noncontributory System for the periods ending June 30, 2006 and 2005 were respectively \$38,832 and \$14,536. The contributions were equal to the required contributions for this period.

The City has also elected to be exempt from the Federal Social Security System for all employees that participate in a qualifying retirement plan. In lieu of contributions to the Social Security System the City contributes into various deferred compensation plans explained below.

Deferred Compensation Plans

The assets held by these deferred plans are not available to the City or its general creditors.

401(k) Plan

The City sponsors a deferred compensation plan under Internal Revenue Code Section 401(k) for City employees covered by the state retirement plan. The Utah State Retirement Board administers this Plan. Employees who have elected to be exempt from the Noncontributory System may elect to have their equivalent City contribution contributed into this plan.

The amount of the employer contributions that substitute for contributions to the Non-contributory pension for the periods ended June 30, 2006 and 2005 were \$14,043 and \$4,066 respectively. Employer contributions that substitute for medical coverage for the periods ended June 30, 2006 and 2005 were \$2,736 and \$1,140. These contributions are made in lieu of the City paying medical premium costs for employees that elect to forgo medical coverage through the City's group policy. These employees are required to provide proof of alternative insurance coverage. The employees of the City may also participate in the 401(k) deferred compensation plan through payroll deductions.

457 Plans

The City sponsors 457 Deferred Compensation Plans in accordance with Internal Revenue Code Section 457 for City employees covered by the state retirement plan. These plans are administered both by the Utah State Retirement Board and the International City/County Management Association Retirement Corporation (ICMA-RC). Employees who have elected to be exempt from the Noncontributory System may elect to have their equivalent City contribution contributed into this plan. The employees of City may also participate in the 457 deferred compensation plan through payroll deductions.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Utah State Retirement Systems 457 Plan

The amount of the employer contributions that substitute for contributions to the Noncontributory system for the periods ended June 30, 2006 and 2005 were respectively \$7,319 and \$0. Employer contributions that substitute for social security contributions for the periods ended June 30, 2006 and 2005 were \$10,938 and \$3,191.

International City/County Management Association 457 Plan

Employer contributions that substitute for medical coverage for the periods ended June 30, 2006 and 2005 were respectively \$9,264 and \$3,860. These contributions are made in lieu of the City paying medical premium costs for employees that elect to forgo medical coverage through the City's group policy. These employees are required to provide proof of alternative insurance coverage. Additional employer contributions to this plan for the periods ended June 30, 2006 and 2005 in the amount of \$23,960 and \$9,085 respectively, constitute the equivalent of otherwise required social security contributions.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased comprehensive general liability insurance through the Utah Local Governments Trust. The City pays premiums to the Trust for its general insurance coverage, automobile liability, and personal injury protection. The Trust is self-sustaining through member premiums. The City is subject to a minimal deductible for claims.

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SUPPLEMENTARY INFORMATION

Cottonwood Heights, Utah
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Capital Projects Fund
For the Year Ended June 30, 2006

Description	Budgeted Adopted Budget	Amounts Final Budget	Fund Actuals (Budgetary Basis) (See Notes)	Variance with Final Budget
REVENUES				
Investment earnings		17,149	17,293	144
Total revenues	0	17,149	17,293	144
EXPENDITURES				
Current:				
General Government		150,000	59,832	(90,168)
Highways and Public Improvements	747,807			
Debt Service:				
Total expenditures	747,807	150,000	59,832	(90,168)
Excess (deficiency) of revenues over (under) expenditures	(747,807)	(132,851)	(42,539)	90,312
OTHER FINANCING SOURCES (USES)				
Sources/(Uses):				
Transfers from General Fund	340,887	3,690,682	3,690,682	
Total Other Financing Sources (Uses)	340,887	3,690,682	3,690,682	
Net change in Fund Balances	(406,920)	3,557,831	3,648,143	90,312
Fund Balance - Beginning	406,920	406,920	406,920	
Fund Balance - Ending		3,964,751	4,055,063	90,312

Cottonwood Heights, Utah

Schedule of Impact Fees Collected by Year, Project, and Planned Expenditures

Storm Water Impact Fees

For Year Ended June 30, 2006

Fee Type	Date Received	Receipt#	Permit #	Permittee	Location of Permit	Impact Fee Collected	City Capital Project	Planned Date of Capital Project	Unspent Fees as of 6/30/06
Storm Water - 350	2/4/2005		05-0008	Ivory Homes	2701 E Troon Circle	1,096	Impact Fee Study	FY 2006	-
Storm Water - 350	2/10/2005		05-0009	Ivory Homes	2694 E Troon Circle	544	Impact Fee Study	FY 2006	-
Storm Water - 350	2/24/2005		05-0019	Scott Christiansen	8748 Hidden Oak Dr	830	Impact Fee Study	FY 2006	-
Storm Water - 350	3/17/2005		05-0022	Pinnacle Building Grp	6780 S 2300 E	865	Impact Fee Study	FY 2006	-
Storm Water - 350	5/5/2005	151320	05-0078	Staff Construction	3243 E Martha's Cove	544	Impact Fee Study	FY 2006	-
Storm Water - 350	5/10/2005	151333	05-0053	Prince Builders	1671 E 7200 S	783	Impact Fee Study	FY 2006	-
					FY 2005 Total	4,661		FY 2005 Total	-
Storm Water - 350	7/18/2005	338616	05-0108	Copper Valley Construction	2946 East Big Cottonwood Rd	1,925	Impact Fee Study	FY 2006	-
Storm Water - 350	7/19/2005	338624	05-0144	Olsen Traditional Homes	1996 East Regal Stream Cove	914	Impact Fee Study	FY 2006	-
Storm Water - 350	10/5/2005	200	05-0302	Tri-City Construction	1993 E Regal Stream Cv	462	Impact Fee Study	FY 2006	-
Storm Water - 350	8/17/2005	338527	05-0161	Prince Builders	2383 E 6660 S	885	Impact Fee Study	FY 2006	-
Storm Water - 350	8/17/2005	338528	05-0224	Prince Builders	2393 E 6660 S	871	Impact Fee Study	FY 2006	-
Storm Water - 350	9/29/2005		05-0254	Halverson Construction	8799 S Sutton Way	902	Impact Fee Study	FY 2006	-
Storm Water - 350	10/6/2005	203	05-0269	Beuchert Builders	3233 East Marthas Cove	2,091	Impact Fee Study	FY 2006	-
Storm Water - 350	10/13/2005	213	05-0278	Staff Construction	8586 Danish Road	2,607	Impact Fee Study	FY 2006	-
Storm Water - 350	10/17/2005	229	05-0290	Halverson Construction	8785 S Sutton Way	1,070	Impact Fee Study	FY 2006	-
Storm Water - 350	10/18/2005	239	05-0283	Doug Reid	2029 Regal Stream Cove	520	Impact Fee Study	FY 2006	-
Storm Water - 350	11/17/2005	326	05-0289	Full House Construction	7272/7274 S Pondersoa Dr	1,045	Impact Fee Study	FY 2006	-
Storm Water - 350	1/19/2006	1030	05-0202	Castlewood Builders	6740 S 1300 E	4,401	Impact Fee Study	FY 2006	-
Storm Water - 350	1/20/2006	1075	05-0369	Charles Christiansen	6575 S Blackstone Road	1,200	Impact Fee Study	FY 2006	-
Storm Water - 350	1/20/2006	1100	05-0335	Roslyn Heaps	1945 E La Cresta	1,088	Impact Fee Study	FY 2006	-
Storm Water - 350	1/31/2006	1247	05-0291	Lisa Ninow	2263 E Cottonwood Cove Ln	942	Impact Fee Study	FY 2006	-
Storm Water - 350	2/9/2006	1451	05-0359	Kim Menzel	7327 S Milen Garden	1,287	Impact Fee Study	FY 2006	-
Storm Water - 350	2/1/2006	1489	06-0008	Halverson Construction	3554 Sutton Circle	1,151	IFS, 2300 E Imprv.	FY 2006, FY 2007	276
Storm Water - 350	3/1/2006	1583	05-0398	Ryan Anderson	2611 E Chalet Cir	914	2300 East Improvements	FY 2007	914
Storm Water - 350	3/29/2006	1724	06-0073	Larry Stewart	6977 S Canyon Creek Circle	658	2300 East Improvements	FY 2007	658
Storm Water - 350	4/5/2006	1763	06-0076	Copper Hills Custom Homes	8275 S Supernal Way	552	2300 East Improvements	FY 2007	552
Storm Water - 350	4/21/2006	1833	06-0113	Chelsea Construction	7656 S Hilliden Ct	2,759	2300 East Improvements	FY 2007	2,759
Storm Water - 350	5/2/2006	1885	06-0053	BLB Drywall	2970 E Caitland Court	759	2300 East Improvements	FY 2007	759
Storm Water - 350	5/4/2006	1898	06-0171	Kevin Bowers	7075 & 7085 S 2245 E	793	2300 East Improvements	FY 2007	793
Storm Water - 350	5/10/2006	1919	06-0146	Maverick Builders	2930 E 7108 S	836	2300 East Improvements	FY 2007	836
Storm Water - 350	6/8/2006	2028	06-0191	Treasure Valley Real Est	7136 Waymar Cir	583	2300 East Improvements	FY 2007	583
Storm Water - 350	6/26/2006	2095	06-0166	Halverson Construction	8784 S Sutton Drive	866	2300 East Improvements	FY 2007	866
					FY 2006 Total	32,080		FY 2006 Total	8,996
					Storm Water Fees Grand Total	36,741		Ending Balance of Funds FY 2006	8,996

